

UNION COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

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Union Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2006 Election)		
Bart Frush	President	2006
Joe Connolly	Vice President	2008
Reda Charmichael	Board Member	2006
Jeff Roberts	Board Member	2007
Dennis McLaughlin	Board Member	2008
Robert Hanson	Board Member	2007
Joe Hadachek	Board Member	2008

Board of Education (After September 2006 Election)		
Bart Frush	President	2009
Joe Connolly	Vice President	2008
Jim Barz	Board Member	2009
Dennis McLaughlin	Board Member	2008
Joe Hadachek	Board Member (Resigned)	2008
Jeff Roberts	Board Member	2007
Robert Hanson	Board Member	2007
Ryan Moody	Board Member (Appointed)	2007

School Officials

Neil Mullen	Superintendent	2007
Kathy Krug	District Secretary/Treasurer and Business Manager	2007
Steve Weidner	Attorney	2007

NOTLE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Union Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Union Community School District, Laporte City, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Union Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 20, 2008 on our consideration of Union Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 38 through 39 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board.

Member American Institute & Iowa Society of Certified Public Accountants

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Union Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

March 20, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Union Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$9,585,536 in fiscal year 2006 to \$10,192,037 in fiscal year 2007, while General Fund expenditures increased from \$9,854,597 in fiscal 2006 to \$10,079,250 in fiscal 2007. This resulted in an increase in the District's General Fund balance from a deficit balance of \$230,616 in fiscal 2006 to a deficit balance of \$64,135 in fiscal 2007.
- The increase in General Fund revenues was attributable to an increase in local taxes and state grant revenues in fiscal 2007. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures.
- Overall, the District's net assets increased in the governmental by \$285,650 and decreased in the business-type activities by \$10,877.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Union Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Union Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Union Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Union Community School District Annual Financial Report

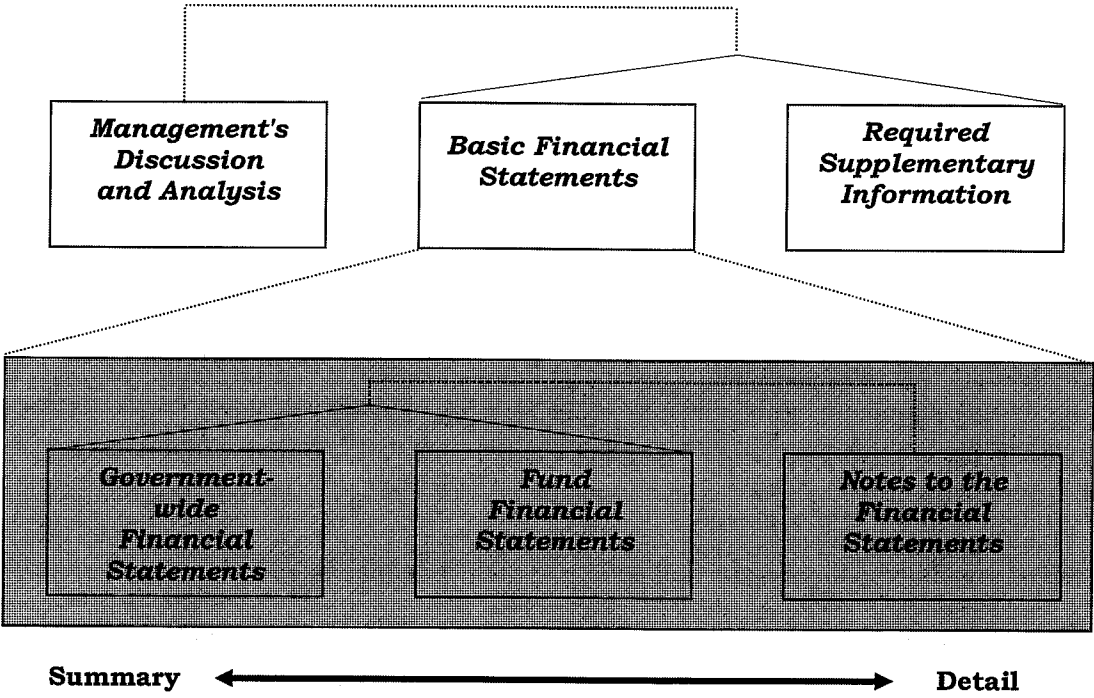


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2
Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include the Private-Purpose Trust.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 9,439,147	8,869,231	\$ 38,554	39,232	\$ 9,477,701	8,908,463	6.39%
Capital assets	4,843,131	5,229,689	67,442	73,809	4,910,573	5,303,498	-7.41%
Total assets	14,282,278	14,098,920	105,996	113,041	14,388,274	14,211,961	1.24%
Long-term obligations	809,194	1,219,250	0	0	809,194	1,219,250	-33.63%
Other liabilities	6,902,629	6,594,865	11,705	7,873	6,914,334	6,602,738	4.72%
Total liabilities	7,711,823	7,814,115	11,705	7,873	7,723,528	7,821,988	-1.26%
Net assets:							
Invested in capital assets, net of related debt	4,178,131	5,229,689	67,442	73,809	4,245,573	5,303,498	-19.95%
Restricted	2,305,946	1,204,048	0	0	2,305,946	1,204,048	91.52%
Unrestricted	86,378	(148,932)	26,849	31,359	113,227	(117,573)	196.30%
Total net assets	\$ 6,570,455	6,284,805	\$ 94,291	105,168	\$ 6,664,746	6,389,973	4.30%

The District's combined net assets increased 4.30%, or \$274,773, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased 91.52%, or \$1,101,898, over the prior year.

Unrestricted net assets-the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased 196.30%, or \$230,800, from the prior year. This increase in unrestricted net assets was a result of the increase in the General Fund during the year.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to June 30, 2006.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 862,707	742,669	\$ 354,547	346,775	1,217,254	1,089,444	11.73%
Operating grants and contributions and restricted interest	1,059,890	950,807	202,201	203,321	1,262,091	1,154,128	9.35%
Capital grants and contributions and restricted interest	0	1,334	0	0	0	1,334	-100.00%
General revenues:							
Local tax	3,843,246	3,551,531	0	0	3,843,246	3,551,531	8.21%
Local option sales and service tax	924,760	915,479	0	0	924,760	915,479	1.01%
Unrestricted state grants	4,616,157	4,482,685	0	0	4,616,157	4,482,685	2.98%
Other	488,324	560,763	1,699	533	490,023	561,296	-12.70%
Total revenues	<u>11,795,084</u>	<u>11,205,268</u>	<u>558,447</u>	<u>550,629</u>	<u>12,353,531</u>	<u>11,755,897</u>	<u>5.08%</u>
Program expenses:							
Governmental activities:							
Instructional	7,183,421	6,995,933	0	0	7,183,421	6,995,933	2.68%
Support services	3,482,014	3,353,369	7,532	0	3,489,546	3,353,369	4.06%
Non-instructional programs	3,571	6,903	561,792	523,589	565,363	530,492	6.57%
Other expenses	840,428	641,096	0	0	840,428	641,096	31.09%
Total expenses	<u>11,509,434</u>	<u>10,997,301</u>	<u>569,324</u>	<u>523,589</u>	<u>12,078,758</u>	<u>11,520,890</u>	<u>4.84%</u>
Change in net assets	285,650	207,967	(10,877)	27,040	274,773	235,007	16.92%
Net assets beginning of year	<u>6,284,805</u>	<u>6,076,838</u>	<u>105,168</u>	<u>78,128</u>	<u>6,389,973</u>	<u>6,154,966</u>	<u>3.82%</u>
Net assets end of year	<u>\$ 6,570,455</u>	<u>6,284,805</u>	<u>\$ 94,291</u>	<u>105,168</u>	<u>6,664,746</u>	<u>6,389,973</u>	<u>4.30%</u>

In fiscal 2007, property tax and unrestricted state grants account for 71.7% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.7% of the revenue from business type activities.

The District's total revenues were approximately \$12.35 million of which \$11.79 million was for governmental activities and slightly more than \$0.56 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 5.08% increase in revenues and a 4.84% increase in expenses. Unrestricted state grants increased \$133,472 to fund increases in expenditures. The increase in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

Governmental Activities

Revenues for governmental activities were \$11,795,084 and expenses were \$11,509,434.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 7,183,421	6,995,933	2.68%	5,703,731	5,718,813	-0.26%
Support services	3,482,014	3,353,369	3.84%	3,431,192	3,304,614	3.83%
Non-instructional	3,571	6,903	-48.27%	3,571	6,903	-48.27%
Other expenses	840,428	641,096	31.09%	448,343	272,161	64.73%
Totals	<u>\$ 11,509,434</u>	<u>10,997,301</u>	<u>4.66%</u>	<u>9,586,837</u>	<u>9,302,491</u>	<u>3.06%</u>

- The cost financed by users of the District's programs was \$862,707.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,059,890.
- The net cost of governmental activities was financed with \$3,843,246 in local tax, \$924,760 in local option sales and services tax, \$4,616,157 in unrestricted state grants, \$236,519 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$558,447 and expenses were \$569,324. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Union Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$2,269,041, above last year's ending fund balances of \$2,021,179. However, the primary reason for the increase in combined fund balances in fiscal 2007 is due to the increase in the General Fund.

Governmental Fund Highlights

- The District's improving General Fund financial position from a deficit \$230,616 to a deficit \$64,135 is the product of many factors:
 - Increase in state aid and property taxes during the year resulted in an increase in revenues.
 - The increase in negotiated salary and benefits settlement, as well as existing expenditure commitments of the District, resulted in an increase in expenditures.
 - Despite the increases in expense, the increase in revenues was still enough to result in a net increase of \$166,481.

- The Capital Projects Fund balance increased from \$1,288,392 in fiscal 2006 to \$1,545,321 in fiscal 2007. This is due to normal spending and increased sales tax revenue for the year.

Proprietary Funds Highlights

The School Nutrition Fund net assets decreased from \$105,168 at June 30, 2006 to \$94,291 at June 30, 2007, representing a decrease of 10.3%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$479,959 less than budgeted revenues, a variance of 4%. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the district's budgetary practice, the certified budget was exceeded in the support services function due to the timing of expenditures at year end without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$4.9 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$635,458.

The original cost of the District's capital assets was \$14,557,702. Governmental funds account for \$14,349,837 with the remainder of \$207,865 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$765,757 at June 30, 2006, compared to \$551,343 reported at June 30, 2007.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30, 2007		June 30, 2006		June 30, 2007		June 30, 2006-07
Land	\$ 53,729	53,729	\$ 0	0	\$ 53,729	53,729	0.00%
Buildings	4,218,361	4,385,280	0	0	4,218,361	4,385,280	-3.81%
Land improvements	87,140	98,732	0	0	87,140	98,732	-11.74%
Machinery and equipment	483,901	691,948	67,442	73,809	551,343	765,757	-28.00%
Total	<u>\$ 4,843,131</u>	<u>5,229,689</u>	<u>\$ 67,442</u>	<u>73,809</u>	<u>\$ 4,910,573</u>	<u>5,303,498</u>	<u>-7.41%</u>

Long-Term Debt

At June 30, 2007, the District had \$809,194 in other long-term debt outstanding. This represents a decrease of 33.6% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding revenue bonded indebtedness payable from the Capital Projects Fund of \$665,000 at June 30, 2007.

The District had total outstanding notes payable from the Special Revenue, Physical Plant and Equipment Levy to the Special Revenue, Expendable Trust Fund of \$135,000 at June 30, 2007.

The District had total outstanding early retirement payable from the Special Revenue, Management Levy Fund of \$9,194 at June 30, 2007.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2007	2006	2006-07
Revenue bonds	\$ 665,000	975,000	-31.8%
Note payable	135,000	150,000	-10.0%
Early retirement	9,194	94,250	-90.2%
Totals	\$ 809,194	1,219,250	-33.6%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The state's economy is showing limited signs of economic recovery. A weaker economy adversely impacts the amount of new general fund money available to the District.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kathy Krug, District Secretary/Treasurer and Business Manager, Union Community School District, 200 Adams, La Porte City, Iowa, 50651.

BASIC FINANCIAL STATEMENTS

UNION COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Primary Government		Component Unit
	Govern- mental Activities	Business type Activities	
		Total	Union Community School District Foundation
Assets			
Cash and pooled investments:			
ISCAP(Note 4)	\$ 2,811,241	0	2,811,241
Other	2,162,387	24,363	2,186,750
Receivables:			3,912
Property tax:			
Delinquent	56,436	0	56,436
Succeeding year	3,559,076	0	3,559,076
Income surtax	270,248	0	270,248
Accounts	46,557	3,782	50,339
Accrued ISCAP interest (Note 4)	102,702	0	102,702
Note (Note 7)	135,000	0	135,000
Due from other governments	295,500	0	295,500
Inventories	0	10,409	10,409
Capital assets, net of accumulated depreciation (Note 5)	4,843,131	67,442	4,910,573
Total Assets	14,282,278	105,996	14,388,274
			3,912
Liabilities			
Accounts payable	46,955	2,464	49,419
Salaries and benefits payable	365,815	0	365,815
ISCAP warrants payable (Note 4)	2,817,000	0	2,817,000
ISCAP interest payable (Note 4)	95,769	0	95,769
ISCAP unamortized premium	15,243	0	15,243
Accrued interest payable	2,771	0	2,771
Deferred revenue:			
Succeeding year property tax	3,559,076	0	3,559,076
Unearned revenue	0	9,241	9,241
Long-term liabilities (Note 6):			
Portion due within one year:			
Revenue bonds payable	325,000	0	325,000
Early retirement payable	9,194	0	9,194
Portion due after one year:			
Revenue bonds payable	340,000	0	340,000
Note payable	135,000	0	135,000
Total Liabilities	7,711,823	11,705	7,723,528
			0
Net Assets			
Invested in capital assets, net of related debt	4,178,131	67,442	4,245,573
Restricted for:			
Salary improvement program	2,317	0	2,317
Additional teacher contract day	2,944	0	2,944
Market factor	3,647	0	3,647
Capital projects	1,545,321	0	1,545,321
Management levy	86,696	0	86,696
Other special revenue purposes	665,021	0	665,021
Unrestricted	86,378	26,849	113,227
Total Net Assets	\$ 6,570,455	94,291	6,664,746
			3,912

SEE NOTES TO FINANCIAL STATEMENTS.

UNION COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Primary Government		Component Unit Union Community School District Foundation
				Govern- mental Activities	Business- Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 4,679,841	386,344	576,419	(3,717,078)	0	(3,717,078)
Special instruction	1,364,343	0	86,029	(1,278,314)	0	(1,278,314)
Other instruction	1,139,237	430,898	0	(708,339)	0	(708,339)
	<u>7,183,421</u>	<u>817,242</u>	<u>662,448</u>	<u>(5,703,731)</u>	<u>0</u>	<u>(5,703,731)</u>
Support services:						
Student services	230,090	0	0	(230,090)	0	(230,090)
Instructional staff services	540,790	0	0	(540,790)	0	(540,790)
Administration services	1,139,818	0	0	(1,139,818)	0	(1,139,818)
Operation and maintenance of plant services	808,489	0	0	(808,489)	0	(808,489)
Transportation services	762,827	45,465	5,357	(712,005)	0	(712,005)
	<u>3,482,014</u>	<u>45,465</u>	<u>5,357</u>	<u>(3,431,192)</u>	<u>0</u>	<u>(3,431,192)</u>
Non-instructional programs:						
Community service and other enterprise operations	3,571	0	0	(3,571)	0	(3,571)
	<u>3,571</u>	<u>0</u>	<u>0</u>	<u>(3,571)</u>	<u>0</u>	<u>0</u>
Other expenditures:						
Facilities acquisitions	216,639	0	0	(216,639)	0	(216,639)
Long-term debt interest	47,858	0	0	(47,858)	0	(47,858)
AEA flowthrough	392,085	0	392,085	0	0	0
Depreciation (unallocated)*	183,846	0	0	(183,846)	0	(183,846)
	<u>840,428</u>	<u>0</u>	<u>392,085</u>	<u>(448,343)</u>	<u>0</u>	<u>(448,343)</u>
Total governmental activities	11,509,434	862,707	1,059,890	(9,586,837)	0	(9,586,837)
Business-Type activities:						
Support services:						
Student services	1,284	1,284	0	0	0	0
Administration services	1,130	1,130	0	0	0	0
Operation and maintenance of plant services	5,118	5,118	0	0	0	0
Non-instructional programs:						
Nutrition services	561,792	347,015	202,201	0	(12,576)	(12,576)
Total business-type activities	<u>569,324</u>	<u>354,547</u>	<u>202,201</u>	<u>0</u>	<u>(12,576)</u>	<u>(12,576)</u>
Total primary government	\$ 12,078,758	1,217,254	1,262,091	(9,586,837)	(12,576)	(9,599,413)
Total component unit	\$ 3	0	3,800			3,797
General Revenues and Transfers:						
General Revenues:						
Local tax for:						
General purposes			\$ 3,747,520	0	3,747,520	0
Capital outlay			95,726	0	95,726	0
Local option sales and services tax			924,760	0	924,760	0
Unrestricted state grants			4,616,157	0	4,616,157	0
Unrestricted investment earnings			236,519	1,699	238,218	37
Gain on sale of equipment			46,260	0	46,260	0
Other			380,937	0	380,937	0
Transfers			(175,392)	0	(175,392)	78
Total general revenues and transfers			9,872,487	1,699	9,874,186	115
Changes in net assets			285,650	(10,877)	274,773	3,912
Net assets beginning of year			6,284,805	105,168	6,389,973	0
Net assets end of year			\$ 6,570,455	94,291	6,664,746	3,912

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

UNION COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments:				
ISCAP (Note 4)	\$ 2,811,241	0	0	2,811,241
Other	226,501	1,282,951	652,935	2,162,387
Receivables:				
Property tax				
Delinquent	51,586	0	4,850	56,436
Succeeding year	3,281,921	0	277,155	3,559,076
Income surtax	270,248	0	0	270,248
Accounts	41,855	3,542	1,160	46,557
Accrued ISCAP interest (Note 4)	102,702	0	0	102,702
Note (Note 7)	0	0	135,000	135,000
Due from other governments	36,672	258,828	0	295,500
Total Assets	\$ 6,822,726	1,545,321	1,071,100	9,439,147
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 40,865	0	6,090	46,955
Salaries and benefits payable	365,815	0	0	365,815
ISCAP warrants payable (Note 4)	2,817,000	0	0	2,817,000
ISCAP interest payable (Note 4)	95,769	0	0	95,769
ISCAP unamortized premium	15,243	0	0	15,243
Deferred revenue:				
Succeeding year property tax	3,281,921	0	277,155	3,559,076
Income surtax	270,248	0	0	270,248
Total liabilities	6,886,861	0	283,245	7,170,106
Fund balances:				
Reserved for:				
Salary improvement program	2,317	0	0	2,317
Additional teacher contract day	2,944	0	0	2,944
Market factor	3,647	0	0	3,647
Unreserved:				
General	(73,043)	0	0	(73,043)
Capital projects	0	1,545,321	0	1,545,321
Management levy	0	0	95,890	95,890
Physical plant and equipment levy	0	0	26,944	26,944
Other special revenue purposes	0	0	665,021	665,021
Total fund balances	(64,135)	1,545,321	787,855	2,269,041
Total Liabilities and Fund Balances	\$ 6,822,726	1,545,321	1,071,100	9,439,147

SEE NOTES TO FINANCIAL STATEMENTS.

UNION COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

Total fund balances of governmental funds (page 15)	\$ 2,269,041
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	4,843,131
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	270,248
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(2,771)
Long-term liabilities, including revenue bonds payable, revenue bans payable, note payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(809,194)</u>
Net assets of governmental activites (page 13)	<u><u>\$ 6,570,455</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

UNION COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 3,528,147	0	302,101	3,830,248
Local option sales and service tax	0	924,760	0	924,760
Tuition	386,344	0	0	386,344
Other	458,009	65,231	426,847	950,087
Intermediate sources	143,732	0	0	143,732
State sources	5,462,259	0	242	5,462,501
Federal sources	213,546	0	0	213,546
Total revenues	10,192,037	989,991	729,190	11,911,218
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	4,493,098	13,952	127,542	4,634,592
Special instruction	1,364,343	0	0	1,364,343
Other instruction	752,326	0	374,860	1,127,186
	6,609,767	13,952	502,402	7,126,121
Support services:				
Student services	238,529	0	0	238,529
Instructional staff services	387,671	62,703	25,645	476,019
Administration services	1,128,990	0	12,214	1,141,204
Operation and maintenance of plant services	741,614	2,793	65,285	809,692
Transportation services	577,023	72,490	108,800	758,313
	3,073,827	137,986	211,944	3,423,757
Non-instruction:				
Community service and other enterprise operations	3,571	0	0	3,571
Other expenditures:				
Facilities acquisitions	0	221,974	0	221,974
Long-term debt:				
Principal	0	0	325,000	325,000
Interest and fiscal charges	0	0	49,150	49,150
AEA flowthrough	392,085	0	0	392,085
	392,085	221,974	374,150	988,209
Total expenditures	10,079,250	373,912	1,088,496	11,541,658
Excess(deficiency) of revenues over(under) expenditures	112,787	616,079	(359,306)	369,560
Other financing sources(uses):				
Transfer in	0	0	374,150	374,150
Transfer out	0	(359,150)	(190,392)	(549,542)
Sale of equipment	53,694	0	0	53,694
Total other financing sources(uses)	53,694	(359,150)	183,758	(121,698)
Net change in fund balances	166,481	256,929	(175,548)	247,862
Fund balance beginning of year	(230,616)	1,288,392	963,403	2,021,179
Fund balance end of year	\$ (64,135)	1,545,321	787,855	2,269,041

SEE NOTES TO FINANCIAL STATEMENTS.

UNION COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds (page 17) \$ 247,862

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of current depreciation exceed expenditures in the current year, as follows:

Capital outlay	\$ 243,370	
Depreciation expense	(622,494)	
Loss on disposal of assets	<u>(7,434)</u>	(386,558)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.	12,998
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early Retirement	85,056
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Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.	325,000
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

<u>1,292</u>

Changes in net assets of governmental activities (page 14)	<u>\$ 285,650</u>
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SEE NOTES TO FINANCIAL STATEMENTS.

UNION COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007

	<u>School</u> <u>Nutrition</u>
Assets	
Cash and pooled investments	\$ 24,363
Accounts receivable	3,782
Inventories	10,409
Capital assets, net of accumulated depreciation(Note 5)	<u>67,442</u>
Total Assets	<u>105,996</u>
Liabilities	
Accounts payable	2,464
Unearned revenue	<u>9,241</u>
Total Liabilities	<u>11,705</u>
Net Assets	
Invested in capital assets, net of related debt	67,442
Unrestricted	<u>26,849</u>
Total Net Assets	<u>\$ 94,291</u>

SEE NOTES TO FINANCIAL STATEMENTS.

UNION COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2007

	<u>School</u> <u>Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for service	\$ 354,547
OPERATING EXPENSES:	
Support services:	
Student services:	
Services	1,284
Administration services:	
Services	1,130
Operation and maintenance of plant services:	
Services	5,118
	<u>7,532</u>
Non-instructional programs:	
Food service operations:	
Salaries	156,309
Benefits	119,159
Services	188
Supplies	273,172
Depreciation	12,964
	<u>561,792</u>
TOTAL OPERATING EXPENSES	<u>569,324</u>
OPERATING LOSS	<u>(214,777)</u>
NON-OPERATING REVENUES:	
State sources	7,276
Federal sources	194,925
Interest income	1,699
TOTAL NON-OPERATING REVENUES	<u>203,900</u>
Changes in net assets	(10,877)
Net assets beginning of year	<u>105,168</u>
Net assets end of year	<u><u>\$ 94,291</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

EXHIBIT I

UNION COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2007

	<u>School</u> <u>Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 346,681
Cash received from miscellaneous operating activities	5,883
Cash payments to employees for services	(275,468)
Cash payments to suppliers for goods or services	(246,322)
Net cash used in operating activities	<u>(169,226)</u>
Cash flows from non-capital financing activities:	
State grants received	7,276
Federal grants received	161,703
Net cash provided by non-capital financing activities	<u>168,979</u>
Cash flows from capital financing activities:	
Acquisition of capital assets	<u>(6,597)</u>
Cash flows from investing activities:	
Interest on investment	<u>1,699</u>
Net decrease in cash and cash equivalents	(5,145)
Cash and cash equivalents at beginning of year	<u>29,508</u>
Cash and cash equivalents at end of year	<u>\$ 24,363</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (214,777)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	33,222
Depreciation	12,964
Increase in inventories	(1,105)
Increase in accounts receivable	(3,362)
Increase in accounts payable	2,453
Increase in unearned revenue	1,379
Net cash used in operating activities	<u>\$ (169,226)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and investments	<u>\$ 24,363</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$33,222.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNION COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
Assets	
Cash and pooled investments	\$ 190,413
Liabilities	<u>0</u>
Net Assets	
Unrestricted	<u>\$ 190,413</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNION COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2007

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Interest	\$ 16,521
Deductions:	
Scholarships	1,500
Income before other financing sources	15,021
Other financing sources:	
Transfer in	175,392
Change in net assets	190,413
Net assets beginning of year	0
Net assets end of year	\$ 190,413

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNION COMMUNITY SCHOOL DISTRICT
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - CASH BASIS
COMPONENT UNIT
JUNE 30, 2007

	<u>Union Community School District Foundation</u>
Assets	
Cash and pooled investments	<u>\$ 3,912</u>
Liabilities	
	<u>0</u>
Net Assets	
Unrestricted	<u><u>\$ 3,912</u></u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNION COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
COMPONENT UNIT
YEAR ENDED JUNE 30, 2007

	<u>Union Community School District Foundation</u>
Revenue:	
Donations	<u>\$ 3,800</u>
Expenses:	
Miscellaneous	<u> 3</u>
Operating income	3,797
Non-operating revenue:	
Interest income	<u> 115</u>
Changes in net assets	3,912
Net assets beginning of year	<u> 0</u>
Net assets end of year	<u><u>\$ 3,912</u></u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNION COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASHFLOWS
COMPONENT UNIT
YEAR ENDED JUNE 30, 2007

	Union Community School District Foundation
Cash flows from operating activities:	
Cash received from miscellaneous operating activities	\$ 3,800
Cash payments to suppliers for goods or services	(3)
Net cash provided by operating activities	<u>3,797</u>
Cash flows from investing activities:	
Interest on investment	<u>115</u>
Net increase in cash and cash equivalents	3,912
Cash and cash equivalents at beginning of year	<u>0</u>
Cash and cash equivalents at end of year	<u>\$ 3,912</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 3,797</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and investments	<u>\$ 3,912</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNION COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(1) **Summary of Significant Accounting Policies**

The Union Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of La Porte City, Dysart and Mount Auburn, Iowa, and the predominate agricultural territory in Tama, Blackhawk, Buchanan and Benton Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Union Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Union Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

These financial statements present the Union Community School District (the primary government) and its component unit. The component unit discussed below, is included in the Districts reporting entity because of the significance of its operational or financial relationship with the District.

Discretely Presented Component Unit

The Union Community School District Foundation was created to raise money through contributions and fundraisers to benefit the District. The Foundation is a separate legal entity with its own accounting records and board of trustees. The Foundation does not produce separately prepared financial statements. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. The Foundation is accounted for as a Governmental fund in these financial statements.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Tama, Blackhawk, Buchanan and Benton Counties Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following proprietary funds:

The District's proprietary fund is the School Nutrition Fund. The Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements, which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when

payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Life (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures in the support services function exceeded the amount budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified portfolio	<u>\$ 2,108,386</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

(3) Transfers

The detail of transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 359,150
Debt Service	Special Revenue, Physical Plant and Equipment Levy	15,000
Private Purpose Trust	Expendable Trust	<u>175,392</u>
Total		<u>\$ 549,542</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a

semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07A	6/28/06	6/28/07	\$ 0	75,279	0	69,585
2006-07B	1/26/07	1/25/08	1,345,560	26,985	1,349,000	25,810
2007-08A	6/28/07	6/27/08	1,465,681	438	1,468,000	374
Total			\$ 2,811,241	102,702	2,817,000	95,769

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2007 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2005-06B	\$ 200,000	0	200,000	0
2006-07A	0	1,240,000	1,240,000	0
2006-07B	0	950,000	950,000	0
Total	\$ 200,000	2,190,000	2,390,000	0

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%
2006-07B	4.250%	5.315%
2007-08A	4.500%	5.455%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 201,268	6,597	0	207,865
Less accumulated depreciation	127,459	12,964	0	140,423
Business-type activities capital assets, net	<u>\$ 73,809</u>	<u>(6,367)</u>	<u>0</u>	<u>67,442</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 53,729	0	0	53,729
Total capital assets not being depreciated	<u>53,729</u>	<u>0</u>	<u>0</u>	<u>53,729</u>
Capital assets being depreciated:				
Buildings	8,735,504	0	0	8,735,504
Land improvements	1,212,445	5,335	0	1,217,780
Machinery and equipment	4,218,531	238,035	113,742	4,342,824
Total capital assets being depreciated	<u>14,166,480</u>	<u>243,370</u>	<u>113,742</u>	<u>14,296,108</u>
Less accumulated depreciation for:				
Buildings	4,350,224	166,919	0	4,517,143
Land improvements	1,113,713	16,927	0	1,130,640
Machinery and equipment	3,526,583	438,648	106,308	3,858,923
Total accumulated depreciation	<u>8,990,520</u>	<u>622,494</u>	<u>106,308</u>	<u>9,506,706</u>
Total capital assets being depreciated, net	<u>5,175,960</u>	<u>(379,124)</u>	<u>7,434</u>	<u>4,789,402</u>
Governmental activities capital assets, net	<u>\$ 5,229,689</u>	<u>(379,124)</u>	<u>7,434</u>	<u>4,843,131</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 190,315
Other	12,051
Support services:	
Student	678
Instructional staff	128,787
Administration	9,149
Operation and maintenance of plant	6,569
Transportation	91,099
	<u>438,648</u>
Unallocated depreciation	<u>183,846</u>
Total governmental activities depreciation expense	<u>\$ 622,494</u>
Business-type activities:	
Food services	<u>\$ 12,964</u>

(6) Long-Term Liabilities

A summary of changes in long-term debt for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Revenue bonds	975,000	0	310,000	665,000	325,000
Notes payable	150,000	0	15,000	135,000	0
Early retirement	94,250	0	85,056	9,194	9,194
Total	\$ 1,219,250	0	410,056	809,194	334,194

Revenue Bonds Payable

Revenue bonds are paid with local option sales and service tax monies from the Capital Projects Fund. Details of the District's June 30, 2007 revenue bonded indebtedness is as follows:

Year Ending June 30,	Interest Rates	Issue dated December 1, 2001		
		Principal	Interest	Total
2008	5.00 %	\$ 325,000	33,250	358,250
2009	5.00	340,000	17,000	357,000
Total		\$ 665,000	50,250	715,250

Note Payable

During the year ended June 30, 2000, the PPEL borrowed \$250,000 from the Bower Trust for construction expenses. The District is currently making annual payments from the Physical Plant and Equipment Levy to the Bower Trust to repay the amount borrowed. The Board intentionally disregarded the repayment schedule set in place when the amount was originally borrowed. However, the District reserves the right to not repay the amount borrowed. Since there is no current repayment schedule in place, we are unable to determine the amount to be repaid within one year. The balance of the notes payable at June 30, 2007 is \$135,000.

Early Retirement

The District offered a voluntary early retirement plan to its certified employees. Eligible employees must have been at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees completed an application which was required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to a calculation of base salary less starting base salary and number of years of consecutive service. Early retirement benefits paid during the year ended June 30, 2007, totaled \$85,056. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(7) Note Receivable

The District's Bower Trust fund loaned the Special Revenue, Physical Plant and Equipment Levy Fund \$250,000 to be used for construction expenses. The District currently plans on repaying this loan over the next several years. At the same time, the District is not required to repay this loan. The balance of the note receivable is \$135,000 at June 30, 2007.

(8) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$288,084, \$282,538 and \$276,004 respectively, equal to the required contributions for each year.

(9) Risk Management

Union Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$392,085 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(11) Deficit Fund Balance/Net Assets

The District's General Fund had a negative unreserved fund balance of \$73,043.

(12) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed the certified budget amounts. During the year ended June 30, 2007 expenditures in the support services function exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

UNION COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 6,091,439	356,246	6,447,685	5,819,820	5,819,820	(627,865)
Intermediate sources	143,732	0	143,732	180,000	180,000	36,268
State sources	5,462,501	7,276	5,469,777	5,474,886	5,474,886	5,109
Federal sources	213,546	194,925	408,471	515,000	515,000	106,529
Total revenues	11,911,218	558,447	12,469,665	11,989,706	11,989,706	(479,959)
Expenditures						
Instruction	7,126,121	0	7,126,121	7,318,000	7,318,000	191,879
Support services	3,423,757	7,532	3,431,289	3,262,524	3,262,524	(168,765)
Non-instructional programs	3,571	561,792	565,363	658,728	658,728	93,365
Other expenditures	988,209	0	988,209	1,845,933	1,845,933	857,724
Total expenditures	11,541,658	569,324	12,110,982	13,085,185	13,085,185	974,203
Excess(deficiency) of revenues over(under) expenditures	369,560	(10,877)	358,683	(1,095,479)	(1,095,479)	1,454,162
Other financing sources, net	(121,698)	0	(121,698)	38,200	38,200	(159,898)
Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing uses	247,862	(10,877)	236,985	(1,057,279)	(1,057,279)	1,294,264
Balance beginning of year	2,021,179	105,168	2,126,347	1,874,439	1,874,439	251,908
Balance end of year	\$ 2,269,041	94,291	2,363,332	817,160	817,160	1,546,172

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNION COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2007, expenditures in the support services function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

UNION COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Other Nonmajor Governmental Funds
Assets					
Cash and pooled investments	\$ 92,569	216,740	25,415	318,211	652,935
Receivables:					
Property tax					
Delinquent	3,321	0	1,529	0	4,850
Succeeding year	181,000	0	96,155	0	277,155
Accounts	0	1,160	0	0	1,160
Note (Note 7)	0	0	0	135,000	135,000
Total Assets	\$ 276,890	217,900	123,099	453,211	1,071,100
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 0	6,090	0	0	6,090
Deferred revenue - succeeding year property tax	181,000	0	96,155	0	277,155
Total Liabilities	181,000	6,090	96,155	0	283,245
Fund Balances:					
Unreserved	95,890	211,810	26,944	453,211	787,855
Total Liabilities and Fund Balances	\$ 276,890	217,900	123,099	453,211	1,071,100

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNION COMMUNITY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	Special Revenue Funds						Total
	Manage-		Physical		Total		Other
	ment	Student	Plant and	Expendable	Special	Debt	Nonmajor
	Levy	Activity	Equipment	Trust	Revenue	Service	Governmental
			Levy		Funds		Funds
REVENUES:							
Local sources:							
Local tax	\$ 206,375	0	95,726	0	302,101	0	302,101
Other	14,513	398,502	3,301	10,531	426,847	0	426,847
State sources	165	0	77	0	242	0	242
TOTAL REVENUES	221,053	398,502	99,104	10,531	729,190	0	729,190
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	120,091	0	7,451	0	127,542	0	127,542
Other instruction	0	374,860	0	0	374,860	0	374,860
Support services:							
Instructional staff services	126	2,855	22,664	0	25,645	0	25,645
Administration services	3,111	9,103	0	0	12,214	0	12,214
Operation and maintenance of plant services	58,906	4,645	1,734	0	65,285	0	65,285
Transportation services	20,885	0	87,915	0	108,800	0	108,800
Other expenditures:							
Long-term debt:							
Principal	0	0	0	0	0	325,000	325,000
Interest and fiscal charges	0	0	0	0	0	49,150	49,150
TOTAL EXPENDITURES	203,119	391,463	119,764	0	714,346	374,150	1,088,496
Excess(deficiency) of revenues over(under) expenditures	17,934	7,039	(20,660)	10,531	14,844	(374,150)	(359,306)
OTHER FINANCING SOURCES(USES):							
Transfer in	0	0	0	0	0	374,150	374,150
Transfer out	0	0	(15,000)	(175,392)	(190,392)	0	(190,392)
TOTAL OTHER FINANCING SOURCES(USES)	0	0	(15,000)	(175,392)	(190,392)	374,150	183,758
NET CHANGE IN FUND BALANCES	17,934	7,039	(35,660)	(164,861)	(175,548)	0	(175,548)
FUND BALANCES BEGINNING OF YEAR	77,956	204,771	62,604	618,072	963,403	0	963,403
FUND BALANCES END OF YEAR	\$ 95,890	211,810	26,944	453,211	787,855	0	787,855

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNION COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Band Uniforms	\$ 1,453	0	949	504
HS Band	0	6,559	6,559	0
MS Band	905	264	844	325
Choir	635	10,034	8,223	2,446
Band Uniforms Fees	2,141	598	449	2,290
Choir Robes	3,779	966	0	4,745
Annuals-prior years	315	0	103	212
Annual 2007	0	4,203	0	4,203
Memory Book	5,682	2,267	2,354	5,595
Annual 2006	1,905	398	2,303	0
Drama	9,153	5,240	6,342	8,051
Magazine sales	0	23,431	23,431	0
Elem - LPC Art Show	297	0	125	172
Music Activity	831	0	831	0
Speech	1,203	3,729	3,488	1,444
Silver Chord-HS	50	233	233	50
Lunch Transfer	0	18	0	18
General Transfer	10	125	0	135
Variety Show	249	0	249	0
<u>High School Athletics:</u>				
Cross Country	0	2,038	2,038	0
Boys Basketball	5,622	12,058	7,812	9,868
Football	8,739	38,892	30,507	17,124
Booster Club	22,590	42,050	42,115	22,525
Baseball	868	4,343	4,674	537
Boys Track	0	2,462	2,462	0
Boys Soccer	835	0	835	0
Boys Tennis	0	236	236	0
Boys Golf	0	1,041	1,041	0
Wrestling	3,756	8,570	7,719	4,607
Girls Basketball	5,596	8,429	5,482	8,543
Volleyball	5,075	8,295	6,125	7,245
Softball	4,800	3,737	7,339	1,198
Girls Track	0	2,193	2,035	158
Girls Tennis	0	153	153	0
Girls Golf	0	887	887	0
Girls Soccer	0	5,772	5,606	166
General Athletics	0	4,293	4,293	0
<u>Middle School Athletics:</u>				
Boys Basketball	0	399	399	0
Football	(26)	4,796	4,770	0
Baseball	(270)	1,821	1,551	0
Boys Track	0	2,070	2,070	0
Wrestling	0	293	293	0
Girls Basketball	0	891	891	0
Softball	(992)	2,051	1,059	0
Girls Track	0	637	637	0
Volleyball	35	705	740	0
General Athletics	10,230	10,830	18,537	2,523

UNION COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Elem - DG	1,240	3,935	4,069	1,106
Elem - LPC	1,182	3,774	3,246	1,710
FFA	5,093	28,307	24,338	9,062
Art Club	3,206	1,746	2,691	2,261
HS Dance Squad	1,470	2,340	3,584	226
<u>Classes:</u>				
Class of 2006	2,430	99	2,529	0
Class of 2007	83	86	0	169
Class of 2008	2,936	5,335	7,164	1,107
Class of 2009	3,458	238	0	3,696
Class of 2010	3,529	144	0	3,673
Class of 2011	2,224	982	0	3,206
Class of 2012	1,429	1,519	0	2,948
Class of 2013	0	1,212	0	1,212
Math Club	197	0	0	197
National Honor Society	0	115	115	0
HS Cheerleaders	0	1,637	1,637	0
MS Dance Team	0	511	511	0
MS Cheerleaders	415	2,389	2,804	0
Student Council - DG	765	2,910	2,504	1,171
Student Council - HS	93	2,237	2,204	126
Student Council - MS	10,415	12,652	14,586	8,481
Student Council - LPC	1,542	2,879	2,691	1,730
Concessions	31,357	52,418	67,636	16,139
Candy	356	400	0	756
Endowment Fund	21,275	3,194	0	24,469
Fruit/Juice Break	5,923	12,430	13,698	4,655
Student Activity	0	461	461	0
German Club	467	7,689	924	7,232
Middle School	3,453	0	3,453	0
HS Student Pop	3,619	5,089	1,693	7,015
After prom	0	13,244	10,136	3,108
Talented and Gifted	682	523	0	1,205
Adult Education	466	0	0	466
Total	\$ 204,771	398,502	391,463	211,810

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNION COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, EXPENDABLE TRUST ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures and Transfers	Balance End of Year
Bowers Estate	\$ 269,004	5,973	0	274,977
Bader Scholarship	2,364	0	2,364	0
Bader Athletic	2,662	134	0	2,796
Nurse Fund	2,077	0	0	2,077
Centennial Scholarship	170	0	170	0
Larson Estate	21,498	1,071	0	22,569
Anders Scholarship	14,718	0	14,718	0
Anders Estate	147,439	3,353	0	150,792
Ellis Jones Scholarship-Pharmacy	79,070	0	79,070	0
Ellis Jones Scholarship-Academic	79,070	0	79,070	0
Total	\$ 618,072	10,531	175,392	453,211

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNION COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2007

				Ellis Jones	Ellis Jones	
	Bader Scholarship	Centennial Scholarship	Anders Scholarship	Scholarship - Pharmacy	Scholarship - Academic	Total
Assets						
Cash and pooled investments	\$ 2,468	424	21,439	83,041	83,041	190,413
Liabilities						
	0	0	0	0	0	0
Net Assets						
Unrestricted	\$ 2,468	424	21,439	83,041	83,041	190,413

UNION COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2007

	Bader Scholarship	Centennial Scholarship	Anders Scholarship	Ellis Jones Scholarship - Pharmacy	Ellis Jones Scholarship - Academic	Total
Additions:						
Local sources:						
Interest	\$ 104	254	8,221	3,971	3,971	16,521
Total additions	104	254	8,221	3,971	3,971	16,521
Deductions:						
Scholarships	0	0	1,500	0	0	1,500
Income before other financing sources	104	254	6,721	3,971	3,971	15,021
Other financing sources:						
Transfer in	2,364	170	14,718	79,070	79,070	175,392
Change in net assets	2,468	424	21,439	83,041	83,041	190,413
Net assets beginning of year	0	0	0	0	0	0
Net assets end of year	\$ 2,468	424	21,439	83,041	83,041	190,413

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNION COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30			
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 4,765,008	4,458,264	4,239,101	4,214,060
Tuition	386,344	352,167	294,161	273,420
Other	940,087	818,596	768,189	754,834
Intermediate sources	143,732	151,769	165,078	150,789
State sources	5,462,501	5,223,143	5,013,465	4,575,442
Federal sources	213,546	191,224	194,256	208,315
Total	<u>\$ 11,911,218</u>	<u>11,195,163</u>	<u>10,674,250</u>	<u>10,176,860</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 4,634,592	4,528,277	4,406,787	4,512,120
Special instruction	1,364,343	1,295,911	1,249,955	1,121,715
Other instruction	1,127,186	1,126,110	1,008,912	963,921
Support services:				
Student services	238,529	231,459	218,384	205,122
Instructional staff services	476,019	370,929	363,933	370,491
Administration services	1,141,204	1,079,520	995,038	906,163
Operation and maintenance of plant services	809,692	882,795	757,981	748,422
Transportation services	758,313	719,310	554,188	623,573
Non-instructional programs	3,571	6,903	3,912	0
Other expenditures:				
Facilities acquisition	221,974	60,715	13,956	61,063
Long-term debt:				
Principal	325,000	290,000	725,000	305,000
Interest and other charges	49,150	63,650	95,673	110,412
AEA flowthrough	392,085	367,601	351,379	368,797
Total	<u>\$ 11,541,658</u>	<u>11,023,180</u>	<u>10,745,098</u>	<u>10,296,799</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Union Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Union Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 20, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Union Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Union Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Union Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Union Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Union Community School District's financial statements that is more than inconsequential will not be prevented or detected by Union Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Union Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the

internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

Compliance and Other Matters

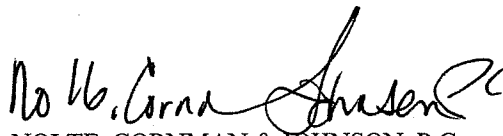
As part of obtaining reasonable assurance about whether Union Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Union Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Union Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Union Community School District and other parties to whom Union Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Union Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

March 20, 2008

UNION COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

- I-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipt listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

- I-B-07 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - The District should research the outstanding checks to determine if they should be reissued, voided or submitted to the Treasurer of Iowa as unclaimed property.

Response - We will comply.

Conclusion - Response accepted.

- I-C-07 Student Activity Fund - During our audit issues arose about the properness of certain expenditures paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended from.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281--12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear the some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where

these monies can be receipted and expended. More specific examples of these instances of questioned items and recommendations are as follows:

It was noted that there were Lifetouch, Box Tops for Education and Target donations receipted into the Activity Fund. These donations should be receipted into the General Fund.

Noted expenditures for a school sign and landscaping for the sign. These expenditures should have been paid from the General or Physical Plant and Equipment Levy Funds instead of the Student Activity fund.

Response - Receipts are now being deposited into the General Fund. Expenses will be monitored to assure they are expended from proper funds.

Conclusion - Response accepted.

- I-D-07 Supporting Documents for Payments to Officials - We noted during the audit that payments were made to athletic officials from the Student Activity fund, however, there were not always copies of the contracts with the paid bills.

Recommendation - Pursuant to a valid contractual agreement between the school board and the officials, which includes terms and conditions for payment and compliance with Chapters 279.29 and 279.30 of the Code of Iowa, officials could be paid after the service has been rendered. For non-contract officials or substitute officials, payment should be made after services have been rendered and audited and allowed similar to other vendor payments. The district should have a policy and (athletic) officials should be informed that payment will be made in this manner unless a valid contract exists. Copies of the signed contracts should be supplied to the accounting staff before checks are issued. The signed contract should then be kept with the paid bills.

Response - We are implementing procedures so that copies of contracts are attached to check requests before payments are made.

Conclusion - Response accepted.

- I-E-07 Exclusive Vendor Contract - We noted during the audit that within the Student Activity Fund there was revenue received from an exclusive vendor contract.

Recommendation - According to guidance provided by the Iowa Department of Education, the Auditor of State and the Attorney Generals Opinion dated February 15, 2000, Districts must record the revenue from exclusive vendor contracts in the General Fund. It may then be expended for General Fund purposes including athletics or other extracurricular activities to the extent the expenditures would be allowable and appropriate from the General Fund.

Response - Future revenue from exclusive vendor contracts will be deposited in the General Fund and expended from same.

Conclusion - Response accepted.

UNION COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting

- II-A-07 Certified Budget - Expenditures for the year ended June 30, 2007 exceeded the amended certified budget amounts in the support services functions.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will monitor the budget and amend when necessary.

Conclusion - Response accepted.

- II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-07 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Nancy McFarland, Bus driver Daughter owns La Porte City Printing & Design	Supplies	\$8,903
Louis Beck, Teacher Mother owns Breads by Ruth Beck	Supplies	\$2,012
Rita Eikamp, Teacher Daughter-in-law owns Simply Blooming	Supplies	\$125
Reta Callahan, Teacher Owns Callahan Catering	Speech Judges Meal	\$134
Nancy McFarland, Bus driver Owns Sunshine Florals	Supplies	\$1,596

In accordance with the Attorney's General's opinion dated November 9, 1976, the above transactions with the daughter of Nancy McFarland, the mother of Louis Beck and the daughter-in-law of Rita Eikamp do not appear to represent a conflict of interest.

In accordance with the Attorney's General's opinion dated July 2, 1990, the above transactions with Reta Callahan and Nancy McFarland do not appear to represent a conflict of interest.

- II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-07 Certified Enrollment - We noted that the number of basic resident student reported to the Iowa Department of Education on line 1 of the Certified Enrollment Certification Form for October 2006 was overstated by 1 student which resulted in overstating the total actual enrollment at line 7 by 1 student.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management .

Conclusion - Response accepted.

- II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

- II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

- II-J-07 Financial Condition - The District's General Fund had a deficit unreserved fund balance of \$73,043.

Recommendation - We are monitoring the balance and have implemented some reductions to assist in reducing costs which will improve the fund balance.

Response - We will monitor this fund and eliminate the deficit.

Conclusion - Response accepted.

- II-K-07 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required for record retention.

Response - We have contacted the bank and are now receiving images of the front and backs of each check.

Conclusion - Response accepted.